

Message Text

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ACTION EUR-25

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USIA-15 AID-20 CEA-02 COME-00 EB-11 EA-11 FRB-03

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DEPT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652:N/A

TAGS: EFIN, GW

SUBJECT: BUNDESBANK GRANTS LIQUIDITY SUPPORT TO BANKS

1. AT ITS JULY 18 MEETING THE CENTRAL BANK COUNCIL OF THE BUNDESBANK
DECIDED TO SELECTIVELY MAKE AVAILABLE SOME ADDITIONAL CENTRAL BANK
MONEY TO THE BANKING SYSTEM THROUGH THE FOLLOWING MEASURES:

A) THE GRANTING OF LOMBARD CREDITS WITHOUT LIMIT AT AN INTER-
EST RATE OF 9 PERCENT WILL BE EXTENDED TO AUGUST 31, 1974. THIS
IS AN EXTENSION FROM THE PREVIOUS JULY 31 DEADLINE FOR UNLIMITED
LOMBARD CREDITS.

B) THE AMOUNT OF PRIME BANKER'S ACCEPTANCE WHICH THE BUNDES-
BANK IS WILLING TO PURCHASE WILL BE INCREASED BY DM 200 MILLION.
THE INCREASED AMOUNT WILL BE AVAILABLE ONLY TO SMALL COMMERCIAL
AND REGIONAL BANKS. (PRIME BANKER'S ACCEPTANCES ARE DEUTSCHEMARK
ACCEPTANCES OF THOSE BANKS WHICH ARE MEMBERS OF THE AKA (AUSFUHRKRE-
DITGESELLSCHAFT. THEY ARE PRINCIPALLY INTENDED TO FINANCE IMPORT,
EXPORT AND MERCHANTING TRANSACTIONS. THE BUNDESBANK INCLUDES THE
PURCHASE OF SUCH ACCEPTANCES WITHIN LIMITS IN ITS OPEN MARKET OPER-
ATIONS).

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C) WHEN NECESSARY THE BUNDESBANK WILL GRANT A REFINANCING

FACILITY TO THE LIQUIDITY CONSORTIUM WHICH THE ASSOCIATION OF GERMAN BANKS ESTABLISHED AFTER THE HERSTATT BANKRUPTCY IN ORDER TO PROVIDE LIQUIDITY SUPPORT FOR BANKS IN LIQUIDITY DIFFICULTIES. THE FACILITY WILL BE PROVIDED TO THE MEMBERS OF THE CONSORTIUM THROUGH AN INCREASE IN THE INDIVIDUAL MEMBER BANK'S REDISCOUNT QUOTA.

D) THE KREDITANSTALT FÜR WIEDERAUFBAU (KfW; RECONSTRUCTION LOAN CORPORATION), WILL BE ENABLED TO REFINANCE ADDITIONAL CREDITS UP TO DM 500 MILLION FOR SMALL AND MEDIUM-SIZED FIRMS THROUGH AN INCREASE IN ITS SPECIAL REDISCOUNT LINE WITH THE BUNDESBANK.

2. IN ANNOUNCING THE ABOVE MEASURES THE BUNDESBANK SAID THAT THEY DO NOT CONSTITUTE A CHANGE IN ITS BASIC RESTRICTIVE POLICY BUT ARE INTENDED:

A) TO COUNTERACT THE CURRENT SEASONAL LIQUIDITY SQUEEZE, B) TO EASE TEMPORARY DIFFICULTIES PREVAILING IN SOME DOMESTIC INTER-BANK MONEY TRANSACTIONS AND C) TO COMPLEMENT (THROUGH THE KfW MEASURES) EFFORTS OF THE FEDERAL GOVERNMENT TO IMPROVE FINANCING FACILITIES FOR SMALL AND MEDIUM-SIZED FIRMS. CASH

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